# NATIONAL DAIRY
# PRODUCTS CORPORATION

## *Annual Report 1956*

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# NATIONAL DAIRY PRODUCTS CORPORATION

## ANNUAL REPORT for the Year Ending December 31, 1956

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### NOTICE TO STOCKHOLDERS

ANNUAL MEETING: The Annual Meeting of the stockholders of National Dairy Products Corporation will be held on Thursday, April 18, 1957, at 11 a.m. at the Hotel Biltmore, Madison Avenue and 43rd Street, New York City. A formal notice of the meeting, together with proxy statement and proxy form, will be mailed to each stockholder on or about March 22, at which time proxies will be requested for use at this meeting.

## KEEPING PACE WITH OUR GROWING MARKETS

The vast market represented by this Nation continued to grow in 1956 as personal income rose and the population increased. These factors, together with the rapid advances in research and technology, presented American business with a great opportunity for growth and an even greater obligation for service.

To keep pace with these broadening markets, we expanded the Company's facilities to manufacture and distribute our many food products. To fulfill our obligation to serve, we provided more people with more and better foods than ever before.

This Annual Report for 1956 describes for you, the owners of National Dairy, these activities as well as other important events of the year.

E. E. Stewart
*President*

# REVIEW IN BRIEF

## OPERATING RECORD

| | 1956 | 1955 |
|---|---|---|
| **WE RECEIVED INCOME:** | | |
| From the Sale of Products | $1,352,878,000 | $1,260,230,000 |
| From Other Sources | 5,693,000 | 5,393,000 |
| Total Income | $1,358,571,000 | $1,265,623,000 |
| **WE INCURRED COSTS AND EXPENSES:** | | |
| Milk and Other Products | $ 733,806,000 | $ 684,457,000 |
| Wages and Salaries | 233,491,000 | 221,866,000 |
| Operating Services and Supplies | 137,730,000 | 121,277,000 |
| Packaging | 106,587,000 | 92,456,000 |
| Taxes | 49,708,000 | 53,029,000 |
| Repairs and Maintenance | 26,434,000 | 24,833,000 |
| Depreciation | 26,285,000 | 24,449,000 |
| Interest on Long-term Debt | 2,813,000 | 2,909,000 |
| Total Costs and Expenses | $1,316,854,000 | $1,225,276,000 |
| **WE EARNED:** | | |
| In Total | $ 41,717,000 | $ 40,347,000 |
| On Each Dollar of Sales | 3-1/10¢ | 3-2/10¢ |
| On Each Share of Stock | $ 3.02 | $ 2.98 |
| **WHICH WAS DISTRIBUTED AS FOLLOWS:** | | |
| Retained in Business | $ 17,873,000 | $ 18,746,000 |
| Dividends to Shareholders | 23,844,000 | 21,601,000 |
| Per Share | $ 1.75 | $ 1.60 |

## FINANCIAL POSITION

| | 1956 | 1955 |
|---|---|---|
| **WE OWNED:** | | |
| Cash and Marketable Securities | $ 51,617,000 | $ 60,148,000 |
| Accounts Due Us | 65,948,000 | 55,613,000 |
| Products, Materials and Supplies | 150,135,000 | 135,488,000 |
| Property, Plant and Equipment (net) | 221,117,000 | 205,528,000 |
| Investments and All Other Assets | 23,444,000 | 12,502,000 |
| Total Owned | $ 512,261,000 | $ 469,279,000 |
| **WE OWED:** | | |
| For Materials, Services and Taxes (net) | $ 93,491,000 | $ 79,684,000 |
| Long-term Debt (less Debentures in treasury) | 95,068,000 | 97,580,000 |
| Reserves, etc. | 2,349,000 | 2,704,000 |
| Total Owed | $ 190,908,000 | $ 179,968,000 |
| **NET WORTH:** | | |
| Difference between What We Owned and What We Owed | 321,353,000 | 289,311,000 |
| | $ 512,261,000 | $ 469,279,000 |

*(The statements of Consolidated Profit and Loss and Surplus will be found on pages 18 and 19; Consolidated Balance Sheets on pages 16 and 17.)*

# TO OUR STOCKHOLDERS

In 1956, National Dairy attained the highest sales record in the Company's history. We sold a total of $1,352,878,000 worth of products during the year, an increase of $92,648,000, or 7.4% over 1955. Virtually all our principal product lines contributed to this increase. We produced and moved to market a greater tonnage than ever before. Favorable economic conditions benefitted our sales.

## EARNINGS BETTER, COSTS UP

Despite sharply rising costs, the Company's net earnings were better than those of the previous year. Net earnings were $41,717,000 against $40,347,000 in 1955. Per share earnings for 1956 were $3.02 based on 13,809,746 shares outstanding, as compared to $2.98 a share in 1955, on 13,538,615 shares.

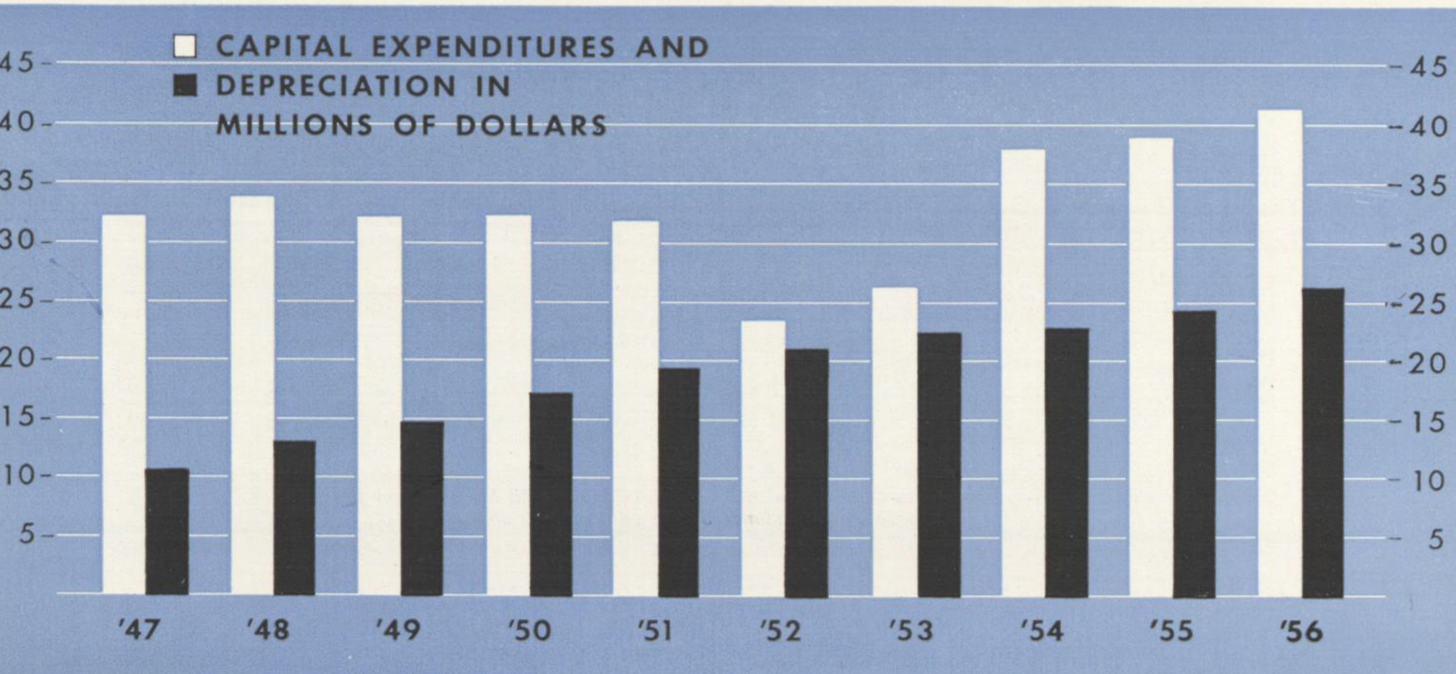
Product costs and expenses including depreciation increased $91,578,000 for the year, rising to $1,316,854,000 as compared to $1,225,276,000 for 1955. Efficiencies resulting from new plants and equipment installed in recent years helped to offset the higher costs of doing business.

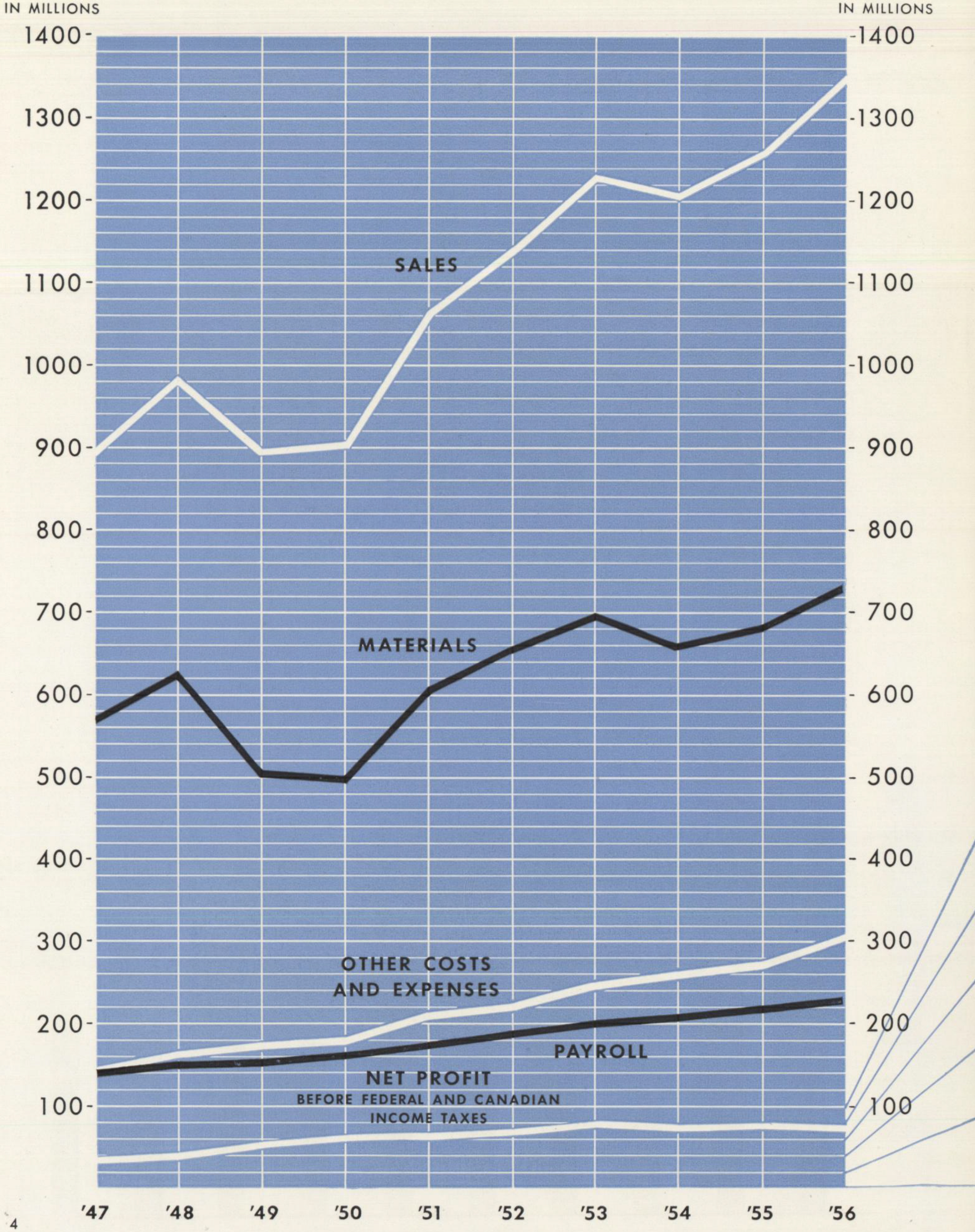
Provision for Federal and Canadian income taxes for 1956 totaled $34,750,000. Other taxes, state and local, amounted to $14,958,000, bringing our total tax bill to $49,708,000, or $3.60 per share.

The sales dollar for 1956 was divided as follows: 54.2¢ for the cost of materials; 17.3¢ for wages and salaries; 21.7¢ for all other charges, and 3.7¢ for taxes. The remaining 3.1¢ represented net profit.

Dividends paid in 1956 to our stockholders amounted to $23,844,000, as against $21,601,000 the previous year. The dividend paid for the second quarter was increased from 40¢ to 45¢ a share. This higher rate was maintained for the third and fourth quarters, bringing the total dividend payment for 1956 to $1.75 a share, as compared with $1.60 a share for 1955.

National Dairy's large family of stockholders numbered 66,478 at the year-end.




IN MILLIONS
IN MILLIONS
1400
1300
1200
1100
1000
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800
700
600
500
400
300
200
100
SALES
MATERIALS
OTHER COSTS AND EXPENSES
PAYROLL
NET PROFIT
BEFORE FEDERAL AND CANADIAN INCOME TAXES
'47
'48
'49
'50
'51
'52
'53
'54
'55
'56

Included were 2,029 institutions, such as insurance companies, pension funds, universities, foundations, investment firms, banks and trust companies and other financial agencies which manage funds for investors. Thus, the dividends from our stock flowed into the mainstream of the economy and were used by an ever-growing cross-section of the American people.

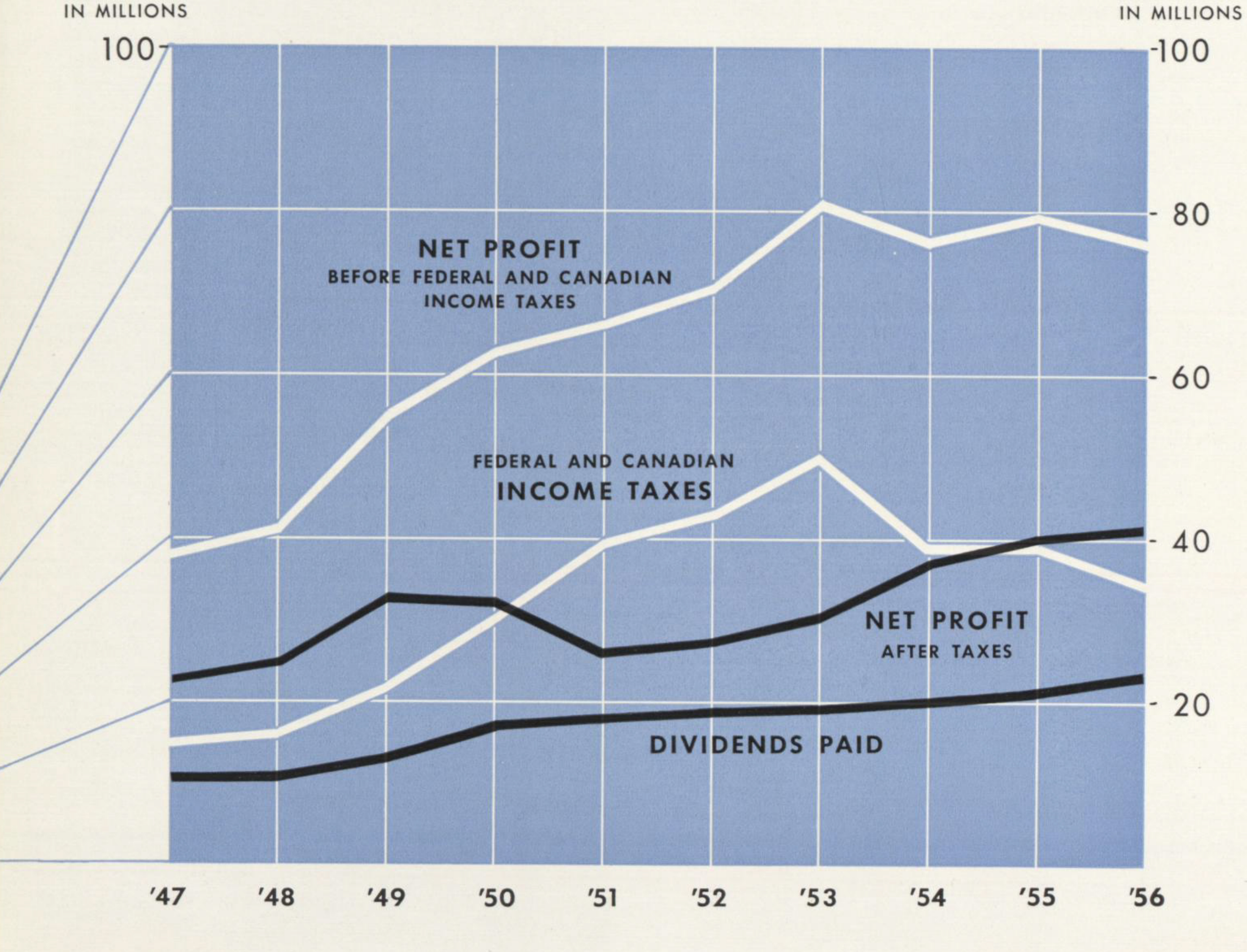
## FINANCIAL POSITION

The Company maintained a strong financial position in 1956. On December 31st, current assets totaled $267,700,000 and current liabilities $96,409,000, so that net working capital amounted to $171,291,000 as against $169,385,000 at December 31, 1955. Cash and marketable securities at the year's end were $51,617,000, while inventories and receivables totaled $216,083,000. The increase for the year of $24,982,000 in receivables and inventories was the result of greater sales and the higher cost of materials and supplies.

Net worth increased to $321,353,000 from $289,311,000 the previous year. Book value (excluding intangibles) rose to $22.81 a share from $21.36 a share in 1955. Long-term debt was reduced by $5,200,500 (including $2,688,500 of a newly-acquired subsidiary) and amounted to $95,068,000 as of December 31, 1956.

## CAPITAL EXPENDITURES

Your Company expended $41,188,000 in 1956 for new plants and sales branches,



modernization of existing plants, new machinery and automotive equipment. This compares with capital expenditures of $38,791,000 in 1955. Retained earnings and depreciation proved sufficient for our capital investment outlay.

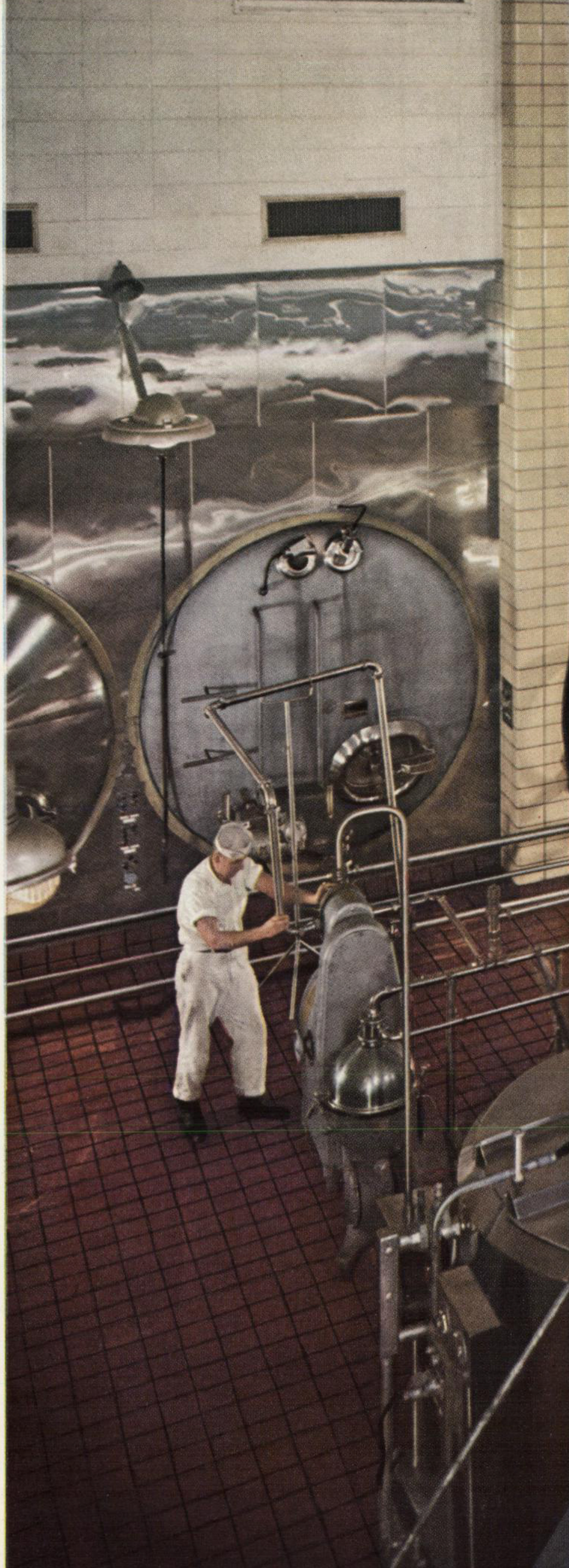
We made good progress in 1956 with our building program, which is designed to provide more economical operations and to meet the greater demand for our products. During the year, construction proceeded as scheduled on the new milk plants which, when completed, will improve the services we furnish in the marketing areas of Pittsburgh, Pa., Camden, N. J., and Peoria, Ill. Work started on a new milk plant located at Lansing, Mich.

We moved ahead on our program to expand manufacturing and distributing facilities for our lines of cheese, salad dressings, cooking oils, margarine, confections, and other grocery products. A new cheese plant was started at Stockton, Ill. Construction also moved along on our new vegetable oil refinery at Champaign, Ill. Rebuilding of our Sheridan, Ind., cheese plant was completed in 1956, and new equipment installed to enlarge our output of Swiss cheese.

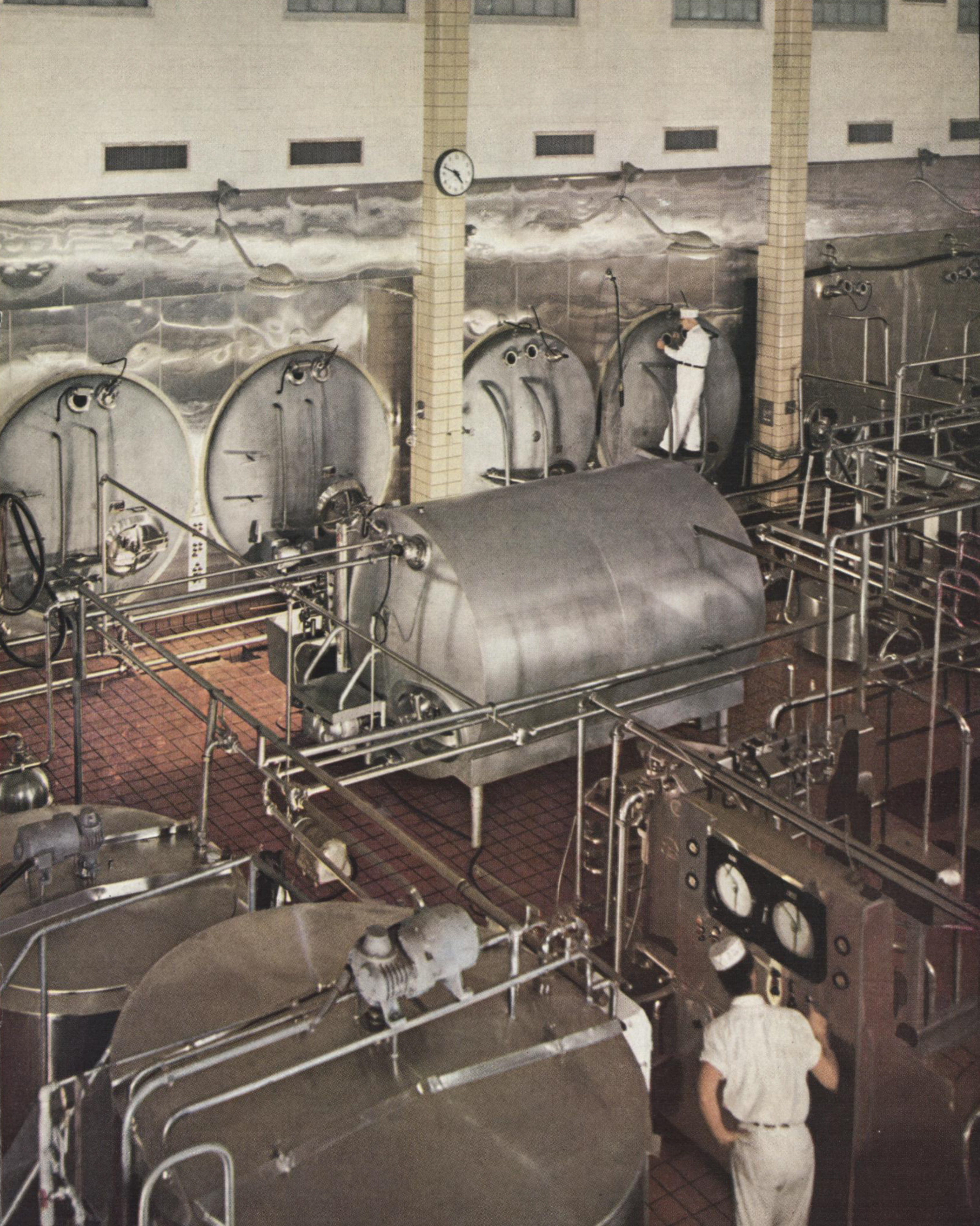
During the year other additions, improvements and installations were made in the Company's properties, to expedite the distribution of our products at the peak of their freshness and perfection.

Your Directors, late in the year, approved a capital expenditures budget of $57,000,000 for 1957. This continues the Company's planned program of providing modern, efficient facilities for production and distribution, in order to insure an ever-stronger market position.

We entered the glass container industry in the late summer of 1956, acquiring the Metro Glass Company with plants in Jersey



MILK PROCESSING . . . From refrigerated holding tanks to filling machines, this modern milk plant operates with the utmost precision, swiftly processing thousands of pounds of milk for each day's market.



City, N. J., Washington, Pa., and Dolton, Ill. Metro is a supplier of containers to National Dairy, as well as to many other companies in the food, beverage, household products and cosmetics industries.

## FOREIGN OPERATIONS

National Dairy's foreign divisions experienced another successful year.

In Canada, with our new plant at Montreal and 12 sales branches in full operation, sales of cheese, salad products, margarine, and other items rose considerably over 1955.

In England, where our sales services extend into Northern Ireland, Scotland, and Wales, we found a growing demand for our products. When our new plant under construction at Liverpool is completed late in 1957, our output for markets in the British Isles will be greatly increased.

In West Germany, operating for the full year from our new headquarters in Frankfurt, our business enjoyed a steady growth. Meanwhile, construction went forward on the fine, modern plant we are building near Hamburg.

During the year, we also expanded our cheese operations into Denmark.

In Australia, we opened a new plant at Melbourne. With a population of over 10,000,000, Australia becomes steadily more important as a market for food products. Our business there is growing, and has a promising future.

In Mexico, we began to make and distribute cheese and salad products at a new plant in Monterrey.

Total foreign sales (excluding Canada) were $83,393,000 in 1956, an increase of 30% over 1955. The Company's share in foreign profits was $3,023,000. We took into earnings only $1,594,000 received as dividends from our subsidiaries abroad.

Results of Canadian operations have been consolidated in our financial statements since 1951. Comparative figures on other foreign operations are shown on Page 21 of this Report.

## NATIONAL DAIRY BECOMES AN OPERATING COMPANY

During the year, your Company carried forward a program of integration and consequent simplification of its corporate structure. We have taken over the properties and assets of a substantial number of our former subsidiary companies, and have continued their operation as Divisions of the Company. The program will be completed in 1957. The new Division structure means no departure from our policy of decentralized management, under which the operating divisions will continue to carry the primary responsibility for the results of regional and local operations. In fact, it will make for greater efficiency in many ways and will effect savings in Federal taxes on our income. This action has followed a long-term study of our former holding company status.

## NEW PRODUCTS AND NEW MARKETS

Through research and market analysis, we continued to emphasize product development to meet changing consumer demands, take advantage of new markets, and create promising opportunities for new business.

We found ways to improve products and packaging in established lines. Several new flavors of Sealtest ice cream were offered in specially-designed packages during periodic promotions. Through our consumer service, new and interesting uses were developed for Sealtest milk products, with particular attention to the expanded market for fat-free skim milk. Increasing markets for our various brands of cottage cheese were created through the development of new varieties.

Products introduced during the year were

**FOR THE SALADS OF AMERICA . . . Vegetable oils for salad products are stored in these giant holding tanks, ready for instant release to any part of the plant. Each of the 24 tanks in this room holds 8,000 gallons.**

16

orange juice, fresh fruit salad, jellies and preserves, a new line of flavored cheese spreads and a new whipped cream cheese.

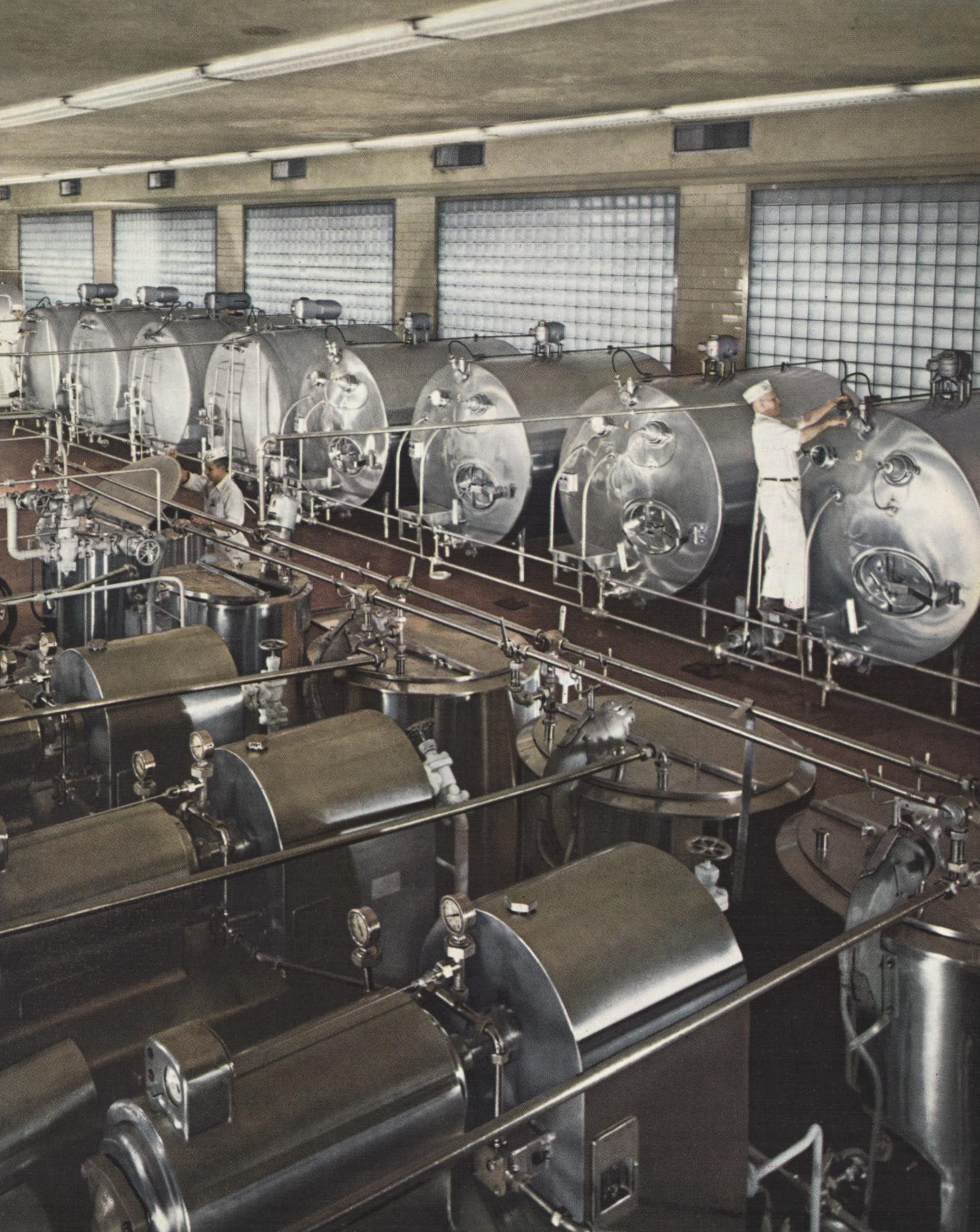
Our newly-developed orange juice, packaged ready-for-use in quart paper containers, began to appear in grocery dairy cases under the Kraft brand. Derived from selected sweet ripe oranges, this is a reconstituted juice maintaining a constant, peak-of-season flavor. We also introduced Kraft fruit salad. The orange, grapefruit, pineapple and maraschino cherry sections going into these salads are processed and packed at our plant in Lakeland, Fla., where special care is taken to conserve all the natural fruit juices.

We also expanded the Company's business with a new Kraft line of jellies and preserves in a wide variety of flavors. Due to a special process which captures and retains the cooking vapors, these jellies and preserves have an exceptionally fine flavor. Our new cheese spreads, called Party Snacks, are sold in vari-colored foil cups, are easy-to-store and to serve as refreshments or appetizers. Unusual flavors are date, onion soup, bacon-and-horseradish, pimento, chive and clam. A whipped cream cheese was introduced in some of the Eastern markets by our Breakstone Foods Division. Under the Temp-tee brand, it found immediate favor because of its delicacy, spreadability and smooth texture.

## MERCHANDISING

To meet keener competition and increase sales, we continued to strengthen our sales promotion efforts, accelerating the tempo of our advertising and placing progressively greater emphasis on National Dairy's many well-known trademarks, such as Kraft, Sealtest, Breyers, Breakstone's and Humko. Advertising constantly stressed the quality, desirability, and convenience of our many fine foods.

**THE MAGIC OF ICE CREAM . . . Push-button controls for continuous production guide every step in this new ice cream plant, from mixing through homogenization, pasteurization, the addition of fruits and flavors, freezing and packaging.**



Special sales campaigns for milk, ice cream, cheese, margarine, caramels, salad dressings and cooking oils were linked to seasonal promotions, enlarging the volume of these products moved during peak sales periods. Through newspapers, magazines, television and radio we advertised the merits of established lines and of new and improved products. We heightened our emphasis upon point-of-sale promotions which help food merchants to stimulate their trade in National Dairy's products, and serve their own customers better.

To improve our position in the fast-growing market for food products used by hotels, restaurants and other public eating places, the Company broadened its institutional sales organization and developed new promotional projects in this field. Numerous products bearing our familiar labels are packed in sizes appropriate to the quantity needs of institutional customers. This is a large and growing market, and we are taking positive action to increase our share.

## THE PEOPLE OF NATIONAL DAIRY

The teamwork and enthusiasm of the 46,496 men and women associated with National Dairy made an important contribution to the Company's progress in 1956. Our employees earned a total of $233,491,000 during the year. Funds paid or provided by the Company as its share of employee benefits amounted to $16,859,000 in 1956, as against $15,376,000 in 1955. These benefits include National Dairy's programs covering insurance, pensions, and hospital and surgical plans, as well as social security, workmen's compensation insurance, and the Company's contribution to union pension and welfare plans.

Effective January 1, 1957, improvements were made in our Non-Contributory Pension Plan. An employee covered by the amended plan who retires with 15 or more years of service to age 65 will now receive a pension of $2 per month for each year of such service, so that with 30 years of service the pension will be $60 per month. Prior to the amendments the maximum pension was $45 a month, for an employee retiring with 30 or more years of service. Another change permits an employee, over 55 but under 65 and with 15 or more years of service, with the consent of his employing division to retire prior to age 65 on a reduced pension. The increased cost (see Note on Page 20) is well-justified by the benefits to the Company flowing from successful operation of the plan.

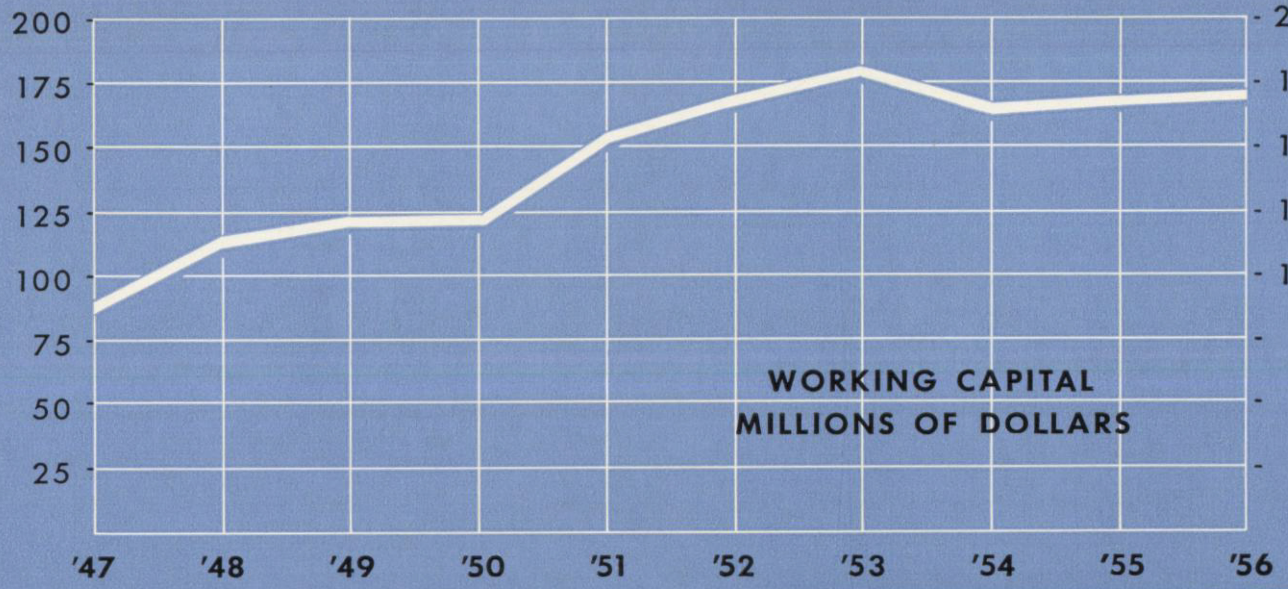
As one of the largest commercial motor fleet operators in the country, National Dairy has a high exposure to traffic accidents, which are costly to life and property. During 1956, our safety program continued to reduce accidents among our more than 16,000 motor vehicles, resulting in a 31.8% lower rate than the dairy industry as a whole. This program, which requires employee cooperation, is an effective way to prevent injury and reduce costs.

## DOING BUSINESS WITH FARM AND COMMUNITY

Throughout the year, National Dairy continued to maintain a close relationship with dairymen and other farmers. Our fieldmen are constantly working in the dairylands and growing areas, helping producers to improve their output of milk and the other farm products we use. American farmers furnished us with raw materials which cost the Company $733,806,000.

In addition, our operations channeled many other dollars directly into local communities, through dividends and wages, and through purchase of supplies and services.

THE SKILLS OF CHEESE-MAKING . . . Of the utmost importance in the making of Swiss cheese are controlled agitation and cooking of the curd. Huge, specially-designed stainless steel vats—largest in the industry—are a development for our patented process of manufacture.



## F. T. C. COMPLAINT

In 1956, the Federal Trade Commission commenced separate proceedings against the four largest companies in the dairy industry, alleging that acquisitions of businesses made by them respectively since 1950 violate Section 7 of the Clayton Act (the so-called Anti-Merger Act) and Section 5 of the Federal Trade Commission Act. Your Company is the respondent in one of these actions. The facts are that our acquisitions since 1950 are relatively minor when compared to the total sales and earnings of our business as a whole, and that our expansion during the last twenty-five years has been chiefly through growth rather than through acquisitions of businesses. Each of the acquisitions under review in our case was carefully considered beforehand in its legal as well as its economic aspects, and was made in the belief that it was sound from both standpoints. Consequently, we are vig-

**PACKAGING FOR MARKET . . . Packaging a wide variety of foods for maximum convenience and the greatest sales appeal, demands specially-designed machinery. High-speed equipment automatically fills, caps and attaches attractive labels.**

orously defending the legality of the transactions.

We welcome this opportunity to thank our stockholders for their continued support and interest in the Company and what it is doing. We also wish to express our thanks to our loyal and able employees, to our customers, and to the suppliers and merchants who helped make 1956 a good year for National Dairy.

By order of the Board of Directors.

New York, N. Y.
March 7, 1957.

LA Van Bomel
*Chairman of the Board*

JL Stewart
*President*

# NATIONAL DAIRY PRODUCTS CORPORATION

## CONSOLIDATED

### ASSETS

| | *December 31* 1956 | 1955 |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | $ 50,246,516 | $ 55,146,098 |
| U. S. Government and other short-term securities, at cost | 1,370,753 | 5,001,794 |
| Notes and accounts receivable, less reserve | 65,947,907 | 55,613,660 |
| Inventories, lower of average cost or market— | | |
| Products and materials | 133,850,696 | 120,888,850 |
| Supplies | 16,284,262 | 14,598,925 |
| *Total Current Assets* | $267,700,134 | $251,249,327 |
| INVESTMENTS AND OTHER ASSETS: | | |
| Foreign subsidiaries not consolidated | $ 10,266,392 | $ 5,395,927 |
| Miscellaneous investments, deposits and receivables, less reserves | 4,464,803 | 4,396,950 |
| | $ 14,731,195 | $ 9,792,877 |
| PROPERTY, PLANT & EQUIPMENT (Stated substantially at cost): | | |
| Land | $ 15,333,463 | $ 14,331,658 |
| Buildings | 132,261,994 | 122,552,028 |
| Machinery and equipment | 261,351,497 | 240,677,665 |
| | $408,946,954 | $377,561,351 |
| Less—Reserve for depreciation | 187,830,346 | 172,033,286 |
| | $221,116,608 | $205,528,065 |
| PREPAID AND DEFERRED ITEMS | $ 2,362,465 | $ 2,709,192 |
| INTANGIBLES | $ 6,350,191 | $ 1 |
| | $512,260,593 | $469,279,462 |

*(See Notes to Consolidated Financial Statements, pages 19 and 20.)*

## AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES

## BALANCE SHEETS

### LIABILITIES

| | *December 31* | |
|---|---|---|
| | 1956 | 1955 |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | $ 84,903,851 | $ 75,305,054 |
| Provision for Federal and Canadian taxes on income | 30,440,068 | 38,616,857 |
| Less—Short-term U. S. Government securities | (21,853,416) | (34,237,638) |
| Debenture sinking fund requirements and Note due within one year, less Debentures held in treasury ($332,000 in 1956 and $1,070,000 in 1955) | 2,918,000 | 2,180,000 |
| *Total Current Liabilities* | $ 96,408,503 | $ 81,864,273 |
| LONG-TERM DEBT: | | |
| 2¾% Debentures due 1970 | $ 39,000,000 | $ 40,500,000 |
| 3% Debentures due 1970 | 24,300,000 | 25,200,000 |
| 3⅛% Debentures due 1976 | 27,600,000 | 28,200,000 |
| 3⅛% Notes (Due $250,000 annually in Canadian funds) | 1,250,000 | 1,500,000 |
| | $ 92,150,000 | $ 95,400,000 |
| RESERVES FOR INSURANCE, ETC. | $ 2,348,689 | $ 2,704,312 |
| CAPITAL STOCK AND SURPLUS: | | |
| Common stock, authorized 16,000,000 shares (par value $5 per share) — | | |
| Issued and outstanding (1956—13,809,746 shares, 1955—13,538,615 shares) | $ 69,048,730 | $ 67,693,075 |
| Capital surplus, per statement attached | 16,180,969 | 6,631,131 |
| Earned surplus, per statement attached | 236,123,702 | 214,986,671 |
| | $321,353,401 | $289,310,877 |
| | $512,260,593 | $469,279,462 |

*(See Notes to Consolidated Financial Statements, pages 19 and 20.)*

# NATIONAL DAIRY PRODUCTS CORPORATION
## AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES
### *Statements of Consolidated Profit and Loss and Earned Surplus*

## CONSOLIDATED PROFIT AND LOSS

|  | *Year ended December 31* 1956 | 1955 |
|---|---|---|
| **INCOME:** |  |  |
| Net sales | $1,352,878,027 | $1,260,230,044 |
| Other income | 5,693,239 | 5,392,632 |
| Total | $1,358,571,266 | $1,265,622,676 |
| **INCOME DEDUCTIONS:** |  |  |
| Cost of products | $ 986,071,274 | $ 910,489,403 |
| Delivery expense | 145,237,271 | 136,899,624 |
| Selling expense | 99,909,430 | 89,184,990 |
| General and administrative expense | 47,278,772 | 45,944,312 |
| Miscellaneous charges—net | 793,707 | 508,038 |
| Interest on long-term debt | 2,813,496 | 2,909,356 |
| Provision for Federal and Canadian taxes on income | 34,750,000 | 39,340,000 |
| Total | $1,316,853,950 | $1,225,275,723 |
| NET PROFIT FOR THE YEAR | $ 41,717,316 | $ 40,346,953 |

*The provision for depreciation charged to costs and expenses amounted in 1956 to $26,284,502 and in 1955 to $24,448,638.*

## CONSOLIDATED EARNED SURPLUS

|  | 1956 | 1955 |
|---|---|---|
| Balance at beginning of year | $ 214,986,671 | $ 196,240,345 |
| Net profit for the year | 41,717,316 | 40,346,953 |
| Refund of prior years' Federal income taxes, including interest of $1,527,989 less Federal income taxes of $794,554 applicable thereto | 1,919,690 | — |
| Reduction of reserve for prior years' Federal income taxes | 1,343,720 | — |
|  | $ 259,967,397 | $ 236,587,298 |
| Dividends on common stock—$1.75 per share in 1956; $1.60 per share in 1955 | 23,843,695 | 21,600,627 |
| Balance at end of year | $ 236,123,702 | $ 214,986,671 |

*(See Notes to Consolidated Financial Statements, pages 19 and 20.)*

# NATIONAL DAIRY PRODUCTS CORPORATION
## AND DOMESTIC AND CANADIAN SUBSIDIARY COMPANIES
### *Statement of Consolidated Capital Surplus*

## CONSOLIDATED CAPITAL SURPLUS

| | *Year ended December 31* 1956 | 1955 |
|---|---|---|
| Balance at beginning of year | $ 6,631,131 | $ 4,778,636 |
| Excess of consideration received over par value of shares issued | 9,549,838 | 1,852,495 |
| Balance at end of year | $16,180,969 | $ 6,631,131 |

*(See Notes to Consolidated Financial Statements, pages 19 and 20.)*

### COMPTROLLER'S CERTIFICATE

*The foregoing financial statements have been prepared under my direction from the companies' books kept under my supervision and, to the best of my knowledge and belief, fairly state the consolidated position of National Dairy Products Corporation and domestic and Canadian subsidiaries as of December 31, 1956 and the consolidated operations for the year ended on that date.*

New York, N. Y., March 7, 1957.

A Bogg Jr.

*Comptroller*

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . DECEMBER 31, 1956

### PRINCIPLES OF CONSOLIDATION

All domestic and Canadian subsidiary companies have been included in consolidation except a mutual insurance company. Information concerning the European, Australian and Mexican subsidiaries, which are not included in consolidation, is shown herein on Page 21.

### INTANGIBLES

Intangibles consist of goodwill, patents, trademarks, and the like. Of the amount shown in the consolidated balance sheet, $6,350,190 represents the excess of the purchase price over the value ascribed to the net tangible assets of a business acquired in 1956. Prior to the year 1956 and subsequent to the year 1942, intangibles similarly acquired (none of which were significant in amount) were charged off to Profit and Loss in the year of purchase. As of January 1, 1943, all intangibles then shown in the consolidated accounts were written down to the nominal value of $1 by appropriate charges to Surplus.

### FEDERAL AND CANADIAN INCOME TAXES

The Company, for income tax reporting only, has adopted the declining-balance method of computing depreciation (involving increased rates of depreciation) on the major classes of its buildings, machinery and equipment in the United States acquired after December 31, 1953, as permitted by the U. S. Internal Revenue Code of 1954, and on all such assets in Canada whenever acquired as permitted under Canadian tax laws. For all other purposes, including the financial statements, the straight-line method is being continued. The reduction in Federal and Canadian income taxes for the year 1956 arising from the additional deduction for depreciation so allowable for income tax reporting is estimated to be about $3,700,000. Of this amount, $2,800,000, representing the tax reduction applicable to regularly-recurring additions and replacements of machinery and equipment, as estimated by the management, is reflected as an addition to 1956 earnings through a reduction in the provision for 1956 Federal and Canadian taxes on income. The balance of $900,000 of such tax reduction, which is attributable to additional depreciation for tax reporting on machinery and equipment additions in excess of regularly-recurring replacements, and on buildings, has been deferred and is included in the "Provision for Federal and Canadian taxes on income" in the accompanying balance sheet.

### LONG-TERM DEBT AND EARNED SURPLUS

The Indenture and Supplemental Indentures under which the 2¾%, 3% and 3⅛% Debentures of the Company are outstanding contain certain provisions with respect to the payment of dividends on the capital stock. Under these provisions, about $66,600,000 of consolidated earned surplus was not available for cash dividends at December 31, 1956.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS . . . DECEMBER 31, 1956 *(Cont'd)*

The Indentures also require that certain varying minimum amounts of Debentures of each series be retired each year through the operation of a sinking fund. Aggregate minimum sinking fund requirements for the next three years, 1957-1959, are $3,000,000 (principal amount) each year.

### EMPLOYEES' STOCK OPTION PLAN

Under the Employees' Stock Option Plan approved in 1952, there were 536,094 shares of the authorized and unissued common stock of the Company reserved at December 31, 1956, for sale to officers and other key employees. At that date 1,751 employees held options to purchase a total of 516,568 shares at prices ranging from $25.975 to $38.60 per share, with an aggregate purchase price of $16,207,178, and 19,526 shares remained available for future grants. Options become exercisable in cumulative periodic installments extending over the terms of such options (generally ten years or to earlier retirement date), commencing not earlier than one year from the date of grant; as of December 31, 1956, options were exercisable for the purchase of 82,801 shares. No options may be granted under the Plan after April 17, 1957.

On February 2, 1956, options were granted to purchase 45,290 shares at $36.50 per share and on November 1, 1956, options were granted to purchase 112,650 shares at $36.25 per share. Options became exercisable during 1956 with respect to 44,329 shares having an aggregate purchase price of $1,282,656. During the year, 24,003 shares of common stock were issued under the Plan and the proceeds of $657,328 were credited to the common stock and capital surplus accounts.

### COMPANY PENSION PLANS

Charges to costs and expenses for retirement annuities under the Company's contributory plan amounted to approximately $2,358,000 in 1956 and $2,324,000 in 1955. Charges to costs and expenses with respect to the Company's non-contributory pension plan amounted to $2,140,000 in 1956 and $1,861,000 in 1955, including payments for past service benefits, which are being funded over the period to 1981.

The amendments to the non-contributory pension plan, described on Page 12, became effective January 1, 1957, as to approximately two-thirds of the eligible employees then covered by the plan. If effective as to all such employees, the increased benefits would increase the annual normal future service cost of this plan about $560,000 and annual past service payments about $900,000. On this basis, the annual future service cost would be approximately $1,620,000 and the total unfunded past service cost at December 31, 1956, would be approximately $34,000,000, the annual cost of which, if funded over the 24-year period to 1981, would be $1,880,000.

### INCENTIVE COMPENSATION PLANS

Under year-to-year incentive compensation plans of the divisions, key employees received approximately $2,402,000 for 1956 and $2,525,000 for 1955. These plans covered in 1956 a total of 931 employees, none of whom received more than 1½% of the total. No officer or director of the Company participated in these plans.

## AUDITORS' CERTIFICATE

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF NATIONAL DAIRY PRODUCTS CORPORATION:

We have examined the consolidated balance sheet of National Dairy Products Corporation (a Delaware corporation) and domestic and Canadian subsidiary companies as of December 31, 1956, and the related statements of consolidated profit and loss and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the year 1955.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated profit and loss and surplus present fairly the financial position of National Dairy Products Corporation and domestic and Canadian subsidiary companies as of December 31, 1956, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y., March 7, 1957.

Arthur Andersen & Co

# NATIONAL DAIRY PRODUCTS CORPORATION

## FOREIGN SUBSIDIARIES NOT CONSOLIDATED

### COMBINED CONDENSED BALANCE SHEETS

| | *December 31* | |
|---|---|---|
| | 1956 | 1955 |
| Current assets | $24,449,656 | $22,821,640 |
| Investments and other assets | 1,260,452 | 29,950 |
| Property, plant and equipment, less reserve for depreciation | 17,678,574 | 8,795,298 |
| Prepaid and deferred items | 162,374 | 202,829 |
| | $43,551,056 | $31,849,717 |
| Current liabilities* | $11,776,722 | $ 6,116,950 |
| Long-term debt* | 6,626,378 | 6,450,625 |
| Reserves for insurance, etc. | 1,039,242 | 1,918,906 |
| | $19,442,342 | $14,486,481 |
| Net tangible assets | $24,108,714 | $17,363,236 |
| Less—Minority interest | 3,870,186 | 3,424,325 |
| Company's equity in net tangible assets | $20,238,528 | $13,938,911 |
| Company's investment in and advances to foreign subsidiaries not consolidated per Consolidated Balance Sheets | $10,266,392 | $ 5,395,927 |

* *Exclusive of amounts owed to parent company and consolidated subsidiaries.*

### COMBINED CONDENSED STATEMENT OF PROFIT AND LOSS

| | *Year ended December 31* | |
|---|---|---|
| | 1956 | 1955 |
| Income: | | |
| Net sales | $83,393,439 | $64,078,584 |
| Other income | 478,548 | 264,935 |
| Total | $83,871,987 | $64,343,519 |
| Income deductions: | | |
| Cost of products | $64,944,289 | $49,346,128 |
| Delivery, selling, general and administrative expenses | 12,061,689 | 9,123,081 |
| Interest on long-term debt | 278,163 | 136,256 |
| Provision for taxes on income | 2,986,286 | 2,575,529 |
| Total | $80,270,427 | $61,180,994 |
| Net profit | $ 3,601,560 | $ 3,162,525 |
| Less—Minority interest | 578,198 | 479,330 |
| Company's equity in net profit | $ 3,023,362 | $ 2,683,195 |
| Dividends received by Company | $ 1,594,210 | $ 1,536,919 |

*All assets and liabilities, other than property, plant and equipment, long-term debt and certain reserves, are translated at the rates of exchange prevailing at the end of each year. The effect of fluctuations in exchange rates is reflected in profit and loss.*

# NATIONAL DAIRY PRODUCTS CORPORATION
## AND DOMESTIC AND CANADIAN* SUBSIDIARY COMPANIES

### *Condensed Ten-Year Statement of Consolidated Assets and Liabilities*

*(All amounts are expressed in thousands)*

| WORKING CAPITAL | 1956 | 1955 | 1954 | 1953 | 1952 | 1951 | 1950 | 1949 | 1948 | 1947 |
|---|---|---|---|---|---|---|---|---|---|---|
| CURRENT ASSETS | | | | | | | | | | |
| Cash and marketable securities | $ 51,617 | $ 60,148 | $ 82,322 | $ 82,598 | $ 39,528 | $ 42,156 | $ 38,836 | $ 53,593 | $ 45,690 | $ 30,614 |
| Notes and accounts receivable (net) | 65,948 | 55,613 | 49,231 | 50,733 | 50,534 | 46,735 | 38,919 | 32,825 | 36,893 | 36,462 |
| Inventories | 150,135 | 135,488 | 111,912 | 107,306 | 136,865 | 122,750 | 94,434 | 80,124 | 89,712 | 86,168 |
| Total Current Assets | $267,700 | $251,249 | $243,465 | $240,637 | $226,927 | $211,641 | $172,189 | $166,542 | $172,295 | $153,244 |
| CURRENT LIABILITIES | | | | | | | | | | |
| Bank loans | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 7,500 |
| Accounts payable and accruals | 84,904 | 75,305 | 72,079 | 58,281 | 54,402 | 54,143 | 47,164 | 42,477 | 40,093 | 40,516 |
| Federal and Canadian income taxes | 30,440 | 38,617 | 36,334 | 49,729 | 42,777 | 39,479 | 30,600 | 22,150 | 16,200 | 15,000 |
| Less—U. S. Government securities | (21,853) | (34,238) | (33,397) | (49,113) | (41,850) | (39,150) | (30,600) | (22,150) | — | — |
| Debenture sinking fund requirements and Note due within one year, less Debentures held in treasury | 2,918 | 2,180 | 1,750 | 1,415 | 1,850 | 1,850 | 1,850 | 1,100 | 500 | 500 |
| Total Current Liabilities | $ 96,409 | $ 81,864 | $ 76,766 | $ 60,312 | $ 57,179 | $ 56,322 | $ 49,014 | $ 43,577 | $ 56,793 | $ 63,516 |
| **Working Capital** | $171,291 | $169,385 | $166,699 | $180,325 | $169,748 | $155,319 | $123,175 | $122,965 | $115,502 | $ 89,728 |
| PROPERTY, PLANT & EQUIPMENT—NET | 221,117 | 205,528 | 191,490 | 176,384 | 174,528 | 172,699 | 160,050 | 146,132 | 134,316 | 115,138 |
| INVESTMENTS, OTHER ASSETS AND PREPAID ITEMS** | 17,094 | 12,502 | 11,510 | 7,946 | 7,740 | 6,188 | 11,202 | 10,929 | 11,031 | 8,561 |
| Total | $409,502 | $387,415 | $369,699 | $364,655 | $352,016 | $334,206 | $294,427 | $280,026 | $260,849 | $213,427 |
| LONG-TERM DEBT | $ 92,150 | $ 95,400 | $ 98,650 | $101,400 | $103,850 | $105,700 | $ 77,550 | $ 79,400 | $ 81,000 | $ 48,500 |
| RESERVES, ETC. | 2,349 | 2,704 | 2,631 | 14,398 | 13,162 | 11,842 | 11,482 | 11,018 | 25,320 | 24,578 |
| Total | $ 94,499 | $ 98,104 | $101,281 | $115,798 | $117,012 | $117,542 | $ 89,032 | $ 90,418 | $106,320 | $ 73,078 |
| **Book Value of Common Stock**** | $315,003 | $289,311 | $268,418 | $248,857 | $235,004 | $216,664 | $205,395 | $189,608 | $154,529 | $140,349 |

NOTE: **Canadian subsidiaries included beginning in* 1951.
***Excluding intangibles.*

# NATIONAL DAIRY PRODUCTS CORPORATION
## AND DOMESTIC AND CANADIAN* SUBSIDIARY COMPANIES

*Condensed Ten-Year Statement of Consolidated Profit and Loss*

*(All amounts are expressed in thousands, except per share and other statistics)*

| | 1956 | 1955 | 1954 | 1953 | 1952 | 1951 | 1950 | 1949 | 1948 | 1947 |
|---|---|---|---|---|---|---|---|---|---|---|
| INCOME | | | | | | | | | | |
| Net sales | $1,352,878 | $1,260,230 | $1,210,328 | $1,232,126 | $1,141,296 | $1,066,177 | $906,641 | $897,675 | $986,404 | $897,324 |
| Other income | 5,693 | 5,393 | 3,902 | 4,582 | 4,191 | 3,746 | 3,298 | 2,445 | 2,465 | 2,438 |
| Total income | $1,358,571 | $1,265,623 | $1,214,230 | $1,236,708 | $1,145,487 | $1,069,923 | $909,939 | $900,120 | $988,869 | $899,762 |
| INCOME DEDUCTIONS | | | | | | | | | | |
| Cost of products | $ 986,071 | $ 910,490 | $ 874,950 | $ 912,586 | $ 852,988 | $ 793,857 | $662,935 | $668,051 | $779,298 | $708,069 |
| Delivery expense | 145,237 | 136,900 | 128,995 | 126,712 | 117,787 | 108,083 | 97,340 | 95,187 | 94,001 | 87,526 |
| Selling expense | 99,910 | 89,185 | 84,679 | 76,245 | 67,841 | 64,183 | 53,343 | 48,945 | 46,549 | 40,908 |
| General and administrative expense | 47,279 | 45,944 | 44,986 | 36,318 | 31,871 | 33,617 | 29,953 | 28,729 | 26,373 | 23,464 |
| Miscellaneous charges—net | 794 | 508 | 736 | 411 | 719 | 1,001 | 903 | 1,568 | (767) | 278 |
| Interest on long-term debt | 2,813 | 2,909 | 2,991 | 3,074 | 3,133 | 2,788 | 2,200 | 2,231 | 1,857 | 1,358 |
| Federal and Canadian income taxes | 34,750 | 39,340 | 39,500 | 50,525 | 43,349 | 39,876 | 30,600 | 22,150 | 16,200 | 15,000 |
| Total income deductions | $1,316,854 | $1,225,276 | $1,176,837 | $1,205,871 | $1,117,688 | $1,043,405 | $877,274 | $866,861 | $963,511 | $876,603 |
| Net profit for the year | $ 41,717 | $ 40,347 | $ 37,393 | $ 30,837 | $ 27,799 | $ 26,518 | $ 32,665 | $ 33,259 | $ 25,358 | $ 23,159 |
| PAYMENTS | | | | | | | | | | |
| Dividends | $ 23,844 | $ 21,601 | $ 20,840 | $ 19,853 | $ 19,316 | $ 18,460 | $ 17,737 | $ 13,860 | $ 11,306 | $ 11,295 |
| Payroll | 233,491 | 221,866 | 211,522 | 203,724 | 190,482 | 177,752 | 161,601 | 156,888 | 152,574 | 141,372 |
| Taxes | 49,708 | 53,029 | 52,333 | 62,758 | 54,668 | 50,944 | 40,924 | 32,110 | 23,824 | 21,963 |
| PER SHARE OF COMMON STOCK† | | | | | | | | | | |
| Earnings transferred to earned surplus | $ 3.02 | $ 2.98 | $ 2.77 | $ 2.31 | $ 2.11 | $ 2.08 | $ 2.57 | $ 2.63 | $ 2.01 | $ 1.84 |
| Dividends | 1.75 | 1.60 | 1.55 | 1.50 | 1.50 | 1.45 | 1.40 | 1.10 | .90 | .90 |
| Taxes | 3.60 | 3.91 | 3.88 | 4.71 | 4.15 | 3.99 | 3.22 | 2.54 | 1.89 | 1.75 |
| Book Value (excluding intangibles) | 22.81 | 21.36 | 19.91 | 18.68 | 17.86 | 16.98 | 16.18 | 15.01 | 12.29 | 11.18 |
| OTHER STATISTICS | | | | | | | | | | |
| Number of— | | | | | | | | | | |
| Common Stockholders | 66,478 | 64,841 | 63,177 | 62,318 | 63,205 | 63,797 | 64,420 | 66,764 | 67,656 | 67,256 |
| Employees | 46,496 | 45,905 | 45,733 | 45,274 | 44,405 | 44,264 | 43,060 | 43,615 | 44,702 | 44,785 |

NOTE: **Canadian subsidiaries included beginning in* 1951.
†*All prior years adjusted to give effect to the* 100% *stock dividend of September* 15, 1954.

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* Denotes directors who are associated with organizations that are not subsidiaries or divisions of National Dairy.

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# NATIONAL DAIRY PRODUCTS CORPORATION

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L. A. Van Bomel
J. Huber Wetenhall
Raymond J. Wise

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Manufacturers Trust Company
New York, New York

*Registrar*
The Chase Manhattan Bank
New York, New York

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